

Message Text

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TAGS: ELAB, EFIN, ECON, GH
SUBJ: HYPERINFLATION AND GENERAL WAGE AND SALARY INCREASES

REFS: (A) ACCRA A-25, 5/19/77; (B) ACCRA 5113

1. SUMMARY. AGAINST THE BACKGROUND OF HYPERINFLATION IN GHANA, THE GOG HAS RAISED THE MINIMUM WAGE, INCREASED ALL GOG EMPLOYEES' PAY SCALES BY AN AVERAGE OF ABOUT 45 PERCENT, AND ACCEDDED TO TUC DEMANDS FOR COMPARABLE PAY RAISES IN THE PRIVATE SECTOR, WHILE ALSO AGREEING TO EX-FACTORY, WHOLESALE AND RETAIL PRICE INCREASES OF 8 PERCENT. THE DECISIONS, SPREAD OUT OVER SEVERAL MONTHS OF POLITICAL MANEUVERING, BUY SOME TIME FOR THE SUPREME MILITARY COUNCIL, EXACERBATE THE PRESENT INFLATION AND REVEAL THE DEPENDENCE OF THE GOVERNMENT ON THE SUPPORT OF THE TRADE UNIONS WHICH HAVE ACHIEVED DRAMATIC SHORT-TERM GAINS FOR THEIR MEMBERS. THE GENERAL ECONOMIC PROBLEMS REMAIN UNTACKLED. THE SHARPLY ADVERSE IMPACT ON THE MISSION'S OPERATING EXPENSES IS DETAILED SEPTEL. END SUMMARY.

2. INFLATION. THE NATION-WIDE CONSUMER PRICE INDEX (CPI)
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FOR APRIL 1977 (LATEST AVAILABLE) ROSE 103 PERCENT OVER APRIL 1976 AND THE MONTHLY AVERAGE FOR JANUARY-APRIL 1977 WAS 79 PERCENT ABOVE ITS LEVEL FOR THE SAME PERIOD OF 1976. THE LOCAL FOOD PORTION (WEP TED 51 PERCENT) OF THE CPI FOR URBAN-DWELLERS ROSE 179 PERCENT FROM APRIL 1976 TO APRIL 1977. AND 132 PERCENT FOR THOSE IN RURAL AREAS. (AIRGRAM FOLLOWS). IN GENERAL, FOOD PRICES LED THE INDEX UP AND THE POLITICALLY-

VOLATILE URBAN DWELLERS, INCLUDING GOVERNMENT EMPLOYEES AND FACTORY WORKERS, HAVE BEEN HARDEST HIT.

3. MINIMUM WAGE RAISED. THE SMC ANNOUNCED JUNE 30 AN INCREASE IN THE DAILY MINIMUM WAGE FOR WORKERS, (EXCEPT APPRENTICES, PEASANT FARM WORKERS, AND DOMESTIC HELP) FROM CEDIS 2.70 TO CEDIS 4.00 (ONE CEDI EQUALS 87 CENTS). THIS WAS THE FOURTH SUCH INCREASE SINCE THE SMC GOVERNMENT CAME TO POWER IN 1972. IN JANUARY 1977, A GOVERNMENT WHITE PAPER HAD SET OUT GUIDELINES FOR SALARIES AND BENEFITS, INCLUDING AN INCREASE FROM CEDIS 2.00 TO CEDIS 2.70 IN THE MINIMUM DAILY WAGE, BUT WITH AN UNDERTAKING THAT A TRIPARTITE COMMITTEE (GHANA EMPLOYERS' ASSOCIATION, TRADES UNION CONGRESS, AND GOG MINISTRIES OF LABOR, SOCIAL WELFARE AND COOPERATIVES AND ECONOMIC PLANNING) WOULD REVIEW THIS FIGURE AND RECOMMEND A NEW LEGAL MINIMUM WAGE (REFAIRGRAM).

4. MINIMUM WAGE LEADS TO GENERAL WAGE INCREASE. WHAT BEGAN IN JUNE AS A DECISION TO RAISE THE MINIMUM WAGE BECAME BY MID-SEPTEMBER AN ACROSS-THE-BOARD PAY INCREASE RETROACTIVELY EFFECTIVE JULY 1, 1977, FOR ALL GOG, AND ALL PRIVATE SECTOR AND OTHER SALARIED EMPLOYEES AND WAGE-EARNERS. A TOP GOG CIVIL SERVANT MAY NOW RECEIVE CEDIS 25,098 ANNUALLY VICE CEDIS 16,332 (UP 54 PERCENT). THE LOWEST PAID WORKERS RECEIVE 111 PERCENT INCREASES; THE AVERAGE INCREASE IS ABOUT 45 PERCENT.
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5. WHAT HAPPENED. OVER THE TEN WEEKS FROM FIRST JULY TO MID-SEPTEMBER, SEVERAL POLITICALLY POWERFUL GROUPS SUCCESSFULLY SOUGHT TO IMPROVE THEIR SHARES OF NATIONAL INCOME IN THE HYPERINFLATIONARY SITUATION. FIRST, THE CIVIL SERVANTS, NOTING THAT A LOWEST GRADE CLERK WOULD RECEIVE LESS THAN THE MINIMUM WAGE, PRESSED FOR A FULL-SCALE INCREASE AT THE LOWEST, AND THEN AT ALL, SALARY LEVELS -- AND GOT IT. IMMEDIATELY, THE TUC FOUGHT TO HAVE THEIR WORKERS RECEIVE PAY INCREASES IN LINE WITH THOSE GRANTED THE CIVIL SERVANTS. THE COMMISSIONER FOR LABOR, SOCIAL WELFARE AND COOPERATIVES AVOIDED A DIRECT GOVERNMENT ORDER TO PRIVATE ELOYERS TO PAY THE NEW WAGES AND DESPITE ISSUING THE NEW PAY SCALES, LEFT MANY EMPLOYERS UNCERTAIN AS TO WHAT THEY WERE REQUIRED TO PAY. (THE LATEST PAY SCALES FOLLOW BY AIRGRAM). THE TRIPARTITE COMMITTEE MET FREQUENTLY, BUT DID NOT SUCCEED IN GETTING A CLEAR GOG DECISION ON THIS POINT.

6. PRIVATE SECTOR MEETING WITH HEAD OF STATE. ON SEPTEMBER 13 THREE PRIVATE BUSINESS LEADERS MET WITH GENERAL

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I.K. ACHEAMPONG TO REQUEST THE GOG NOT TO EXTEND THE NEW CIVIL SERVICE WAGE AND SALARY LEVELS TO THE PRIVATE SECTOR. IN RESPONSE, THE GENERAL NOTED THAT THE SITUATION HAD GOTTEN OUT OF HAND AND THE REQUEST WAS OVERTAKEN BY EVENTS. IN RESPONSE TO THE FURTHER REQUEST THAT THE GOG FREEZE WAGES FOR TWELVE MONTHS, THE CASTLE WAS PREPARED ONLY TO ATTEMPT QUOTE QUIET PERSUASION UNQUOTE WITH THE TUC, AN APPROACH REGARDED BY THE BUSINESSMEN CONCERNED AS CERTAIN TO BE INEFFECTIVE. ALL THE LARGER PRIVATE BUSINESSES ARE NOW PAYING THE NEW SALARY AND WAGE RATES, AND EXPECT THAT MANY UNIONS WILL PRESS FOR FURTHER WAGE INCREASES WHEN THE VARIOUS PRE-JULY CONTRACTS EXPIRE.

7. SOME EFFECTS. (A) INFLATION. THE PAYMENTS TO BE MADE IN LATE SEPTEMBER 1977, BY MOST PRIVATE EMPLOYERS OF THE NEW RATES RETROACTIVE TO JULY FIRST WILL HAVE A SHARPLY INFLATIONARY IMPACT, PARTICULARLY AS BASIC NECESSITIES, ABOVE ALL FOOD, REMAIN IN SHORT SUPPLY. THERE WAS NO PROVISION, WE UNDERSTAND, IN THE FY78 GOG BUDGET FOR THESE INCREASES AND THE BUDGET DEFICIT WILL INCREASE, ITSELF A PRIME CAUSE OF THE PRESENT INFLATION. (B) POLITICAL. THE LIMITED OFFICIAL USE

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TUC EMERGES AS A SWING POWER BLOC BETWEEN THE PROFESSIONALS AND THE MILITARY GOVERNMENT, WITHOUT WHOSE SUPPORT THE GOVERNMENT WOULD BE GRAVELY WEAKENED (REFTEL B). AND THE TUC HAS MADE THE MOST OF ITS POSITION TO EXTRACT MAJOR WAGE INCREASES OUT OF THE GOVERNMENT. (C) LONG-TERM OUTLOOK. THE INCREASES ADDRESS NONE OF GHANA'S NOW WELL-DOCUMENTED MAJOR ECONOMIC PROBLEMS, E.G. AN OVER-VALUED CEDI, MISMANAGEMENT OF FOREIGN EXCHANGE, SMUGGLING, DECLINING COCOA PRODUCTION, PERVASIVE PRICE CONTROLS, COSTLY SUBSIDIES. WASTEFUL STATE ENTERPRISES AND THEY EXACERBATE ONE KEY PROBLEM: INFLATION. UNLESS OTHER MEASURES NOT NOW CONTEMPLATED ARE TAKEN, WE MAY EXPECT INFLATION TO CONTINUE WITH INEVITABLY FURTHER DEMANDS FOR WAGE INCREASES TO FOLLOW.

8. THE SHARPLY ADVERSE EFFECT ON THE MISSION'S OPERATING EXPENSES IS ADDRESSED SEPTTEL.
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